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THE COMMONWEALTH OF  
MASSACHUSETTS



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GAAP INSTRUCTION MANUAL  
FOR THE YEAR-ENDING JUNE 30, 1990

GOVERNMENT DOCUMENT  
COLLECTION  
SEP 11 1990  
University of Massachusetts  
Department of...

**Issued by: Office of the State Comptroller  
Financial Reporting and Analysis Bureau**

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APPROVED BY: RIC MURPHY, PURCHASING AGENT

902/446



TABLE OF CONTENTS

PAGES

INTRODUCTION ..... 1-3

SCHEDULE OF GAAP EVENTS ..... 4

GAAP REPORTING AREAS:

    ACCOUNTS RECEIVABLE ..... 5-12

    COMPENSATED ABSENCES ..... 13-20

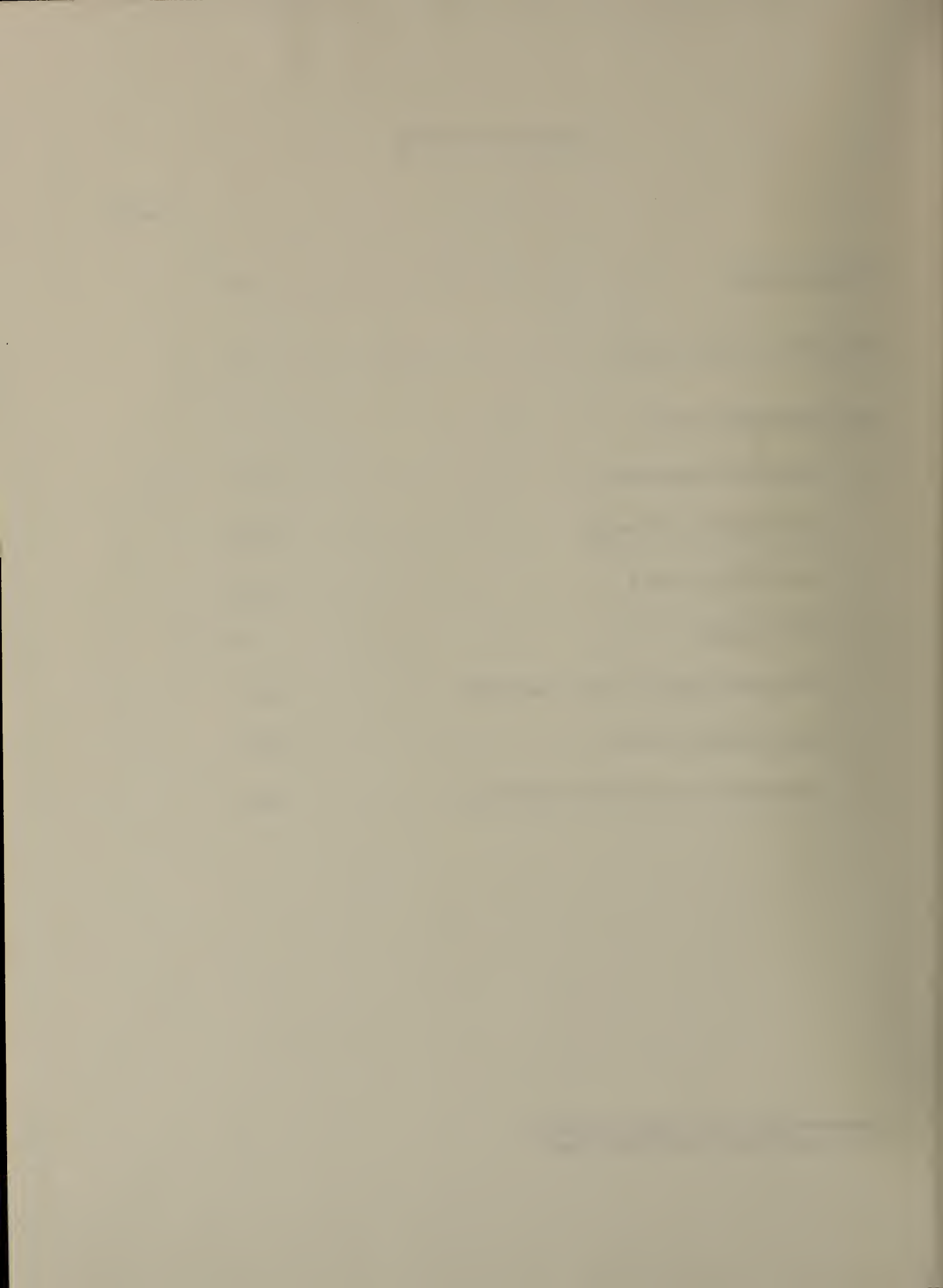
    ACCOUNTS PAYABLE ..... 21-24

    FIXED ASSETS ..... 25

    LEASE DISCLOSURE - STATE AS LESSEE ..... 26-29

    ASSETS HELD IN TRUST ..... 30-32

    MATERIALS AND SUPPLIES INVENTORY ..... 33-35



## INTRODUCTION

### GAAP Overview

Throughout the year the Commonwealth carries out and reports its financial operations on a budgetary (or statutory) basis. For its Comprehensive Annual Financial Report (CAFR) it reports on the basis of generally accepted accounting principles (GAAP) as defined by the Governmental Accounting Standards Board (GASB).

The Commonwealth's CAFR has included audited GAAP financials along with its audited budgetary financials for 4 consecutive years. In FY90, the CAFR, will be entirely GAAP-based. Budgetary fund statements will be issued separately. This is because GAAP financials are increasingly important for governments.

For example, on a GAAP basis the Commonwealth includes information about liabilities or future expenditure commitments to facilitate financial planning. Budgetary statements primarily report current, cash-based transactions without regard to future years' costs.

Similarly, under GAAP the Commonwealth reports non-appropriated trust funds and certain authorities through which state business is conducted. This provides a more comprehensive picture of the scope of government.

GAAP financials also permit more effective comparisons among states, and this is important to the financial community and the public.

The Office of the Comptroller extends its thanks, in advance, to the many individuals who will be working to ensure that the GAAP effort is completed on schedule and that we attain this new standard of reporting.

### FY90 Highlights

- . All GAAP information has a uniform due date: Friday, August 10, 1990. A single GAAP Reporting Transmittal (GEN-1) will be used.
- . Transition to a new Fixed Asset Accounting System - As predicted in FY89, the Office of the Comptroller is implementing a MMARS Fixed Asset accounting subsystem. FY90 GAAP reporting will focus on generating solid, auditable 6/30/90 balances, at historical cost, for land, buildings and equipment.
- . Thanks to FY89 successes, accounts payable will again be derived from final budgetary encumbrances. The departments will not be required to prepare separate GAAP worksheets. For PMIS departments, Comptroller's staff will again prepare GAAP vacation accruals, and may extend this central effort to sick leave buyback.
- . MMARS RPT286F will again provide the basis for accounts receivable reporting. A supplementary analysis sheet has been added to reduce followup on exception items.

We expect that lease information will be available from MMARS so that departments will be able to verify and update a turnaround document, eliminating a manual compilation effort.

Department prepared summary schedules will again function as cover sheets for desk review and/or audit followup. Greater support for decentralized departments which report at the facility level will ensure complete and consistent reporting for the entire department. A supplemental handout will be distributed for those departments doing decentralized reporting.

The Comptroller is confident that real workload reductions in the departments will occur again this year in most GAAP areas. The fixed asset project, however, is a significant undertaking. The Comptroller's Office is committed to making this as efficient as possible, but mindful that the project is critical to achieving substantial improvements in the Commonwealth's reporting and fiscal management. Your cooperation is essential.

As in the past, questions can be addressed to the GAAP Helpline at 617-727-5995.

### General Documentation Guidelines

The departments remain responsible for preparing and maintaining auditable supporting documentation in each GAAP area. Departments should also retain a copy of all GAAP information submitted to the Comptroller.

Often, the necessary supporting documentation includes a detailed worksheet or list of all the individual items that combine to the total reported for GAAP. This is in turn supported by the underlying documents themselves. An example of this intermediate level of documentation is shown in the Accounts Receivable section of these Instructions. Please note that this detail list of accounts receivable rolls up to the revenue source code subtotal, which in turn rolls up to a revenue category total.

When an amount is estimated, the documentation should include the procedures, assumptions, computations and methods used to develop the estimate.

This documentation should be maintained in good order, readily available for review by audit staff from the Office of the State Auditor and/or the Commonwealth's independent audit firm. It should also be accessible to department staff, who may be contacted by the Comptroller's staff assigned to perform desk reviews.

GAAP documentation should be retained for seven years after the fiscal year-end. It should be kept for two years at the department and then archived. This is unchanged from prior years.

GAAP REPORTING TRANSMITTAL - FY'90

DEPARTMENT/ORG XYZ STATE DEPARTMENT

To: Financial Reporting & Analysis Bureau  
Office of the Comptroller  
One Ashburton Place - Room 909  
Boston, MA 02108

Attention: Annie Murray

From: Name: C. FISCAL OFFICER, Primary GAAP Liaison  
Title: C. F. O.  
Telephone: 727-XXXX

The department/org includes the following GAAP reporting information as of June 30, 1990:

	STATUS	
	<u>Completed</u>	<u>Not Applicable</u>
Decentralized, multi facility reporting forms	_____	_____ ✓
Accounts Receivable:		
RPT286F/RPT286G	_____ ✓	_____
Accounts Receivable Summary Schedule	_____ ✓	_____
Accounts Receivable Analysis	_____ ✓	_____
Compensated Absences:		
Vacation Accrual Summary Schedule	_____ ✓	_____
Sick Leave Buyback Summary Schedule	_____ ✓	_____
Fixed Assets - Physical Property:	_____ ✓	_____
Lease Disclosure:	_____ ✓	_____
Assets Held in Trust:	_____ ✓	_____
Materials and Supplies Inventory:	_____ ✓	_____
Other:		
Higher Ed Trust Funds, GASB 3, Federal Financial Assistance	_____	_____ ✓
_____	_____	_____
_____	_____	_____

Signature: C. Fiscal Officer

Date: 5/9/90

SCHEDULE OF GAAP EVENTS - FY90

Training Sessions	May 1990
GAAP Distribution #1	June 1990
.    GAAP Forms Packages	
.    PMIS Compensated Absences *	
.    Fixed Assets	
GAAP Distribution #2	Close of Period 12 (Watch MMARS News for updates)
.    Accounts Receivable: RPT286F&G	
.    Lease Disclosure: RPT831A	
Completed GAAP Reports Due Date	August 10, 1990
Desk Review and Audit of GAAP Reports	August 13 - September 14, 1990

\* Will be eliminated if centralized sick leave accrual proves feasible.



## ACCOUNTS RECEIVABLE

### Overview

**Accounts Receivable:** Under GAAP, revenue is measured when earned. On a budgetary basis it is generally recorded when the confirming cash is collected. The term "Accounts Receivable" is defined as revenue earned but not yet collected for services performed or goods provided on or before year end. It includes taxes due but unpaid, federal reimbursements and a variety of other accounts receivable such as fees, fines, and rents due but not yet paid.

In general, accounts receivable are supported by bills sent to the party who owes money to the Commonwealth. For example, in a federal reimbursement program, the department generates a receivable when expenditures have already been made from state appropriations on or before June 30, 1990, but reimbursement has not been received by that date. The receivable exists regardless of when the claim is submitted. It exists because the service was rendered on or before the June 30 year-end cutoff.

Almost any revenue source can have receivables. There however, are two areas with special issues:

- 1) For some federal grants (Fund 100) budgetary receivables are recorded by the Comptroller's office when drawdowns in FY91 are applied against open FY90 encumbrances rather than to FY91 business. Departments identify the CR transaction(s) for these drawdowns as budget fiscal year 90 (BFY90) in FY91. These are also valid GAAP receivables, but we do not want to double count them. If you have requested special handling by the Accounting Bureau to "pull federal cash back", please note this on RPT286F and cross reference the document ID's.
- 2) Revenue Category 08 (Other Financing Sources) will not ordinarily have any receivables. It includes Comptroller - initiated activity such as, A/P Reverts and Proceeds of Bonds Sales and transfers from other departments (through IV's and OT's) which will be completed during FY90 in accord with the FY90. Closing Instructions - Section 7: Special Accounting and Adjusting Entries.

If you think a receivable is appropriate in this category contact the Helpline for further guidance.

**Uncollectibles:** Accounts receivable are offset by estimated "Uncollectibles". Potential disallowances on Federal reimbursements are reported as uncollectibles. So are bounced checks. The Departments will report both gross accounts receivable (the total amount billed) and its estimate of uncollectible accounts. These items should not be netted.

Uncollectible amounts are the department's best estimate of future collections. The estimation method can vary for different revenue types. Common methods are:

- . use of a percent of total receivable that corresponds to past collection or disallowance experience, e.g. 5% of the total receivable
- . reporting as uncollectible all invoices or other claims unpaid for more than a certain period, e.g. more than 120 days after the invoice or claim date
- . some combination of the above.

Deferred Revenue: Deferred revenue relates the earning of revenue to the collection of cash. If the department expects it will take longer than one year to collect an account receivable, it will record "Deferred Revenue". Deferred revenue does not reduce reported accounts receivable.

To illustrate deferred revenue, suppose an invoice for \$100,000 is issued on July 7, 1990, for services provided from June 1 through June 30, 1990; the contract specifies payment is not due until July 1991. At June 30, 1990 the department would report the \$100,000 as both Accounts Receivable and Deferred Revenue. The revenue event has occurred, but the confirming cash will not be received for more than a year.

In order to facilitate audit analysis, departments will review the reasonableness of their GAAP results. Do the 3 GAAP components (Accounts Receivable, Uncollectible and Deferred Revenue) make sense in relationship to each other? Does the total Account Receivable make sense in comparison to revenue? Did FY90 revenue change significantly from FY89? If so, why? These kinds of questions are asked during desk review at Comptroller's, and they are asked by the auditors. Departments will include a separate summary of exception analysis in their GAAP reporting packages in order to reduce followup.

#### Method

MMARS RPT286F will be used for accounts receivable reporting. It will be sent to departments after the close of Period 12, in GAAP Distribution #2. See Exhibit AR-2 for a sample page. A companion report, RPT286G, will be distributed to decentralized departments with operating facilities at multiple locations.

Both the RPT286F and RPT286G are organized by fund and revenue category. For each fund they show the revenues by MMARS revenue source for FY89 and FY90 to facilitate comparative analysis.

For each revenue source code, the department or facility will review its accounts receivable detail records as of June 30, 1990. When the detail totals \$5,000 or more, the receivable will be reported in the column labelled "6/30 Accounts Receivable". When the June 30, 1990 receivable is less than \$5,000 enter "N/A" in the "6/30 Accounts Receivable" "Uncollectible" and "Deferred" columns.

For each revenue code with a reported accounts receivable amount, the corresponding uncollectible and deferred revenue must also be estimated and reported in their columns, even if the amount is zero. This will confirm that the item has not simply been overlooked. Use the "Comments" column to note the method used to estimate the uncollectible and deferred.

Some revenue sources may have receivable items that originated in fiscal years before FY90. These should be displayed separately from FY90 amounts, as shown in Exhibit AR-2.

To summarize their review of accounts receivable, departments will complete the Accounts Receivable Analysis form, illustrated in Exhibit AR-4. This form should be prepared for each revenue source code that exhibits one of these exception conditions:

- 1) FY90 revenue increase or decrease > 50% and \$500,000 from FY89
- 2) RPT286F FY90 revenue is  $\geq$  \$1,000,000 and there are no Accounts Receivable
- 3) Accounts Receivable are > 25% of RPT286F FY90 revenue
- 4) Uncollectibles are > 25% of the Accounts Receivable
- 5) Deferred Revenue is > 25% of Accounts Receivable.

Completed Summary Schedules and Accounts Receivable Analysis forms should be signed by the responsible department and/or facility personnel. These signers will be the primary contacts for GAAP follow-up questions from both Comptroller reviewers and auditors.

All Accounts Receivable information reported for GAAP must be backed up by auditable supporting detail, such as invoices or reimbursement claims, maintained at the department or facility.

#### Frequently Asked Questions

- Q. What are accounts receivable according to GAAP?
- A. Accounts receivable represent revenues earned during one fiscal period (e.g. FY90) for which the confirming cash is not collected until a later fiscal period. If a department receives payment on July 25, 1990 (FY91) for a service performed on May 17, 1990 (FY90) it would report an account receivable as of June 30, 1990.
- Q. Should a department show total receivables or just those originating in FY90?
- A. Accounts receivable (plus related uncollectibles and deferred revenue) for prior years should be displayed separately. In general the prior years' accounts receivable balances will be largely uncollectible. However, when the collection period is quite long, the prior year balances may now be current. In this case it is also likely that the FY90 balances will be largely deferred.
- Q. Should departments report accounts receivable for amounts it has billed to other departments?
- A. Yes, but these amounts should be clearly identified. For example, DOC should separately report Correctional Industries' billing to other departments of the Commonwealth. This will help to ensure that the corresponding encumbrances are noted for Accounts Payable. Medicaid receivables to be redistributed by WEL to other departments (e.g., DPH, DMH, DMR) are similar examples of interdepartmental billings which should be noted.

- Q. If a hospital's patients are covered by health insurance, and the claim reimbursement process takes several weeks, should the hospital consider reimbursements due from health insurers at June 30, 1990 as accounts receivable?
- A. Yes. If the service was performed on or before June 30, 1990, the hospital should record the reimbursement as a receivable. The department should also provide its best estimate of uncollectibles, based on past claims denied, and of deferred revenue.
- Q. Is there a receivable for federal reimbursement if the claim has not been filed by June 30, 1990?
- A. Yes, provided the reimbursable expenses have been incurred on or before June 30, 1990. A federal reimbursement generates a receivable whenever the underlying expense has been incurred but reimbursement has not been received.
- Q. In the context of measuring a federal reimbursement receivable, when is an expense incurred?
- A. The expense is incurred when the goods are received or the service is performed. This includes "accounts payable", for goods and/or services received by June 30, 1990 and encumbered, but not yet paid at that date.
- Q. How will decentralized multi facility departments report accounts receivable?
- A. Decentralized multi facility departments will accumulate the information from all facilities and report the department's total accounts receivable, uncollectible and deferred revenue on Accounts Receivable Summary Schedule (AR-3). These departments will also provide supporting schedules by facility.
- Q. If branch offices did not report June cash receipts to the department's central office on time to meet the July 2 due date for FY90 cash receipt reporting, should the department report a receivable?
- A. No, these are FY90 cash receipts and revenue. For further instructions departments should refer to the FY90 Closing Instructions - Section 2: Cash and Revenue Management.

GAAP ACCOUNTS RECEIVABLE EXAMPLES  
JUNE 30, 1990

FUND: 010  
REVENUE CATEGORY: 04  
REVENUE SOURCE: 3500

<u>CUSTOMER ACCOUNT</u>	<u>DATE(S) OF SERVICE OR DELIVERY</u>	<u>AMOUNT BILLED</u>	<u>DATE OF BILL OR CLAIM</u>	<u>DATE PAID</u>	<u>AMOUNT REC'D</u>	<u>GAAP AR 6/30/90?</u>	<u>AR AMOUNT</u>
A	6/12/90	20,350	7/06/90	7/20/90	20,350	YES	20,350
B	7/03/90	6,800	7/03/90	7/03/90	6,800	NO	0
C	3/15/90	30,000	3/20/90	7/17/90	15,000	YES	30,000
D	5/1 - 5/31/90	17,200	6/01/90	7/03/90	16,900	YES	17,200
	3/1 - 3/31/89	16,000	4/03/89	5/30/89	15,750	YES	250
	2/1 - 2/28/89	15,125	3/01/89	4/05/89	15,050	YES	75
E	6/15/89	24,000	6/30/89	7/20/89	12,000	N/A	N/A
				7/05/90	12,000	YES	12,000
F	6/29/90	<u>1,200</u>	7/05/90	7/31/90	<u>1,200</u>	YES	<u>1,200</u>
		<u>130,675</u>			<u>115,050</u>		<u>81,075</u>
		=====			=====		=====

Customer Account C needs further review. It may be uncollectible because \$15,000 is more than 90 days overdue.

Customer Account D needs further review because the small unpaid balances may be uncollectible.

Customer Account E's balance due would have been reported as deferred in FY'89.

C O M M O N W E A L T H O F M A S S A C H U S E T T S  
 MMARS - MASSACHUSETTS MANAGEMENT ACCOUNTING AND REPORTING SYSTEM  
 TOTAL REVENUE BY DEPT, FUND, REVENUE CATEGORY AND REVENUE SOURCE  
 FY AS OF 6/30/90

RUN DATE:  
 RUN TIME:  
 CTRREPT

DEPT. XYZ STATE DEPARTMENT

REV CAT	NAME	REV SRCE	TOTAL FY89 REVENUE	TOTAL FY90 REVENUE	6-30 ACCTS REC	UNCOLLECTIBLE	DEFERRED	COMMENTS
FUND: 010								
03	FED-G-REIMB 520 3	MEDICARE	4,058,293	7,002,502	1,000,000	275,000	5,000	Uncoll. Over 1 yr.
	TOTAL FOR REV CAT: 03		4,058,293	7,002,502	1,000,000	275,000	5,000	
04	DEPT							
		3500 REIMBURSEMENTS	2,140,870	2,072,613	80,750	15,000	0	Uncoll. Over 90 Days
		3508 MEALS	1,919	1,452	0	0	0	
		4000 RENTS	17,944	8,908	2,000	0	0	
		4500 MISCINC SALE	511,615	500,792	0	0	0	
		4511 FARM PRODUCT	0	28,220	4,000	0	0	
	TOTAL FOR REV CAT: 04		2,672,348	2,611,985	84,075	15,325	0	
FUND: 100								
	TOTAL FOR FUND: 010		6,730,641	9,614,487	1,094,075	290,325	5,000	Specia Handling CR 9100010
03	FED-G-REIMB 1157	LIBRARY SERV	0	10,000	0	0	0	
	TOTAL FOR REV CAT: 03		0	10,000	0	0	0	
	TOTAL FOR FUND: 100		0	10,000	0	0	0	
FUND: 300								
07	0-REV 7200	TR-CONTRIB	159,321	183,147	0	0	0	
	TOTAL FOR REV CAT: 07		159,321	183,147	0	0	0	
	TOTAL FOR FUND: 300		159,321	183,147	0	0	0	
	TOTAL FOR DEPARTMENT:		6,889,962	9,807,634	1,074,075	290,325	5,000	

ACCOUNTS RECEIVABLE SUMMARY SCHEDULE - FY'90

DEPARTMENT/ORG XYZ STATE DEPARTMENT

5,000  
290,325  
1,094,075  
9,807,634  
2,857,942  
TOTAL FOR DEPARTMENT

UND	DESCRIPTION	REVENUE CATEGORY	FY'89 AMT PER DEPT	FY'90 AMT PER DEPT	MFR/AUDIT ADJUSTMENT	ADJUSTED BALANCE	GP#
010	ACCOUNTS RECEIVABLE	03	TO BE	1,000,000			
010	ACCOUNTS RECEIVABLE	04	COMPLETED	94,075			
	ACCOUNTS RECEIVABLE		BY CTR		TO BE COMPLETED		
	ACCOUNTS RECEIVABLE				BY CTR		
	ACCOUNTS RECEIVABLE		N/A FOR				
	ACCOUNTS RECEIVABLE		DEPARTMENT		N/A FOR DEPARTMENT		
	ACCOUNTS RECEIVABLE						
	ACCOUNTS RECEIVABLE						
	TOTAL			1,094,075			
010	UNCOLLECTIBLE	03	TO BE	275,000			
010	UNCOLLECTIBLE	04	COMPLETED	15,325			
	UNCOLLECTIBLE		BY CTR		TO BE COMPLETED		
	UNCOLLECTIBLE				BY CTR		
	UNCOLLECTIBLE		N/A FOR				
	UNCOLLECTIBLE		DEPARTMENT		N/A FOR DEPARTMENT		
	UNCOLLECTIBLE						
	UNCOLLECTIBLE						
	TOTAL			290,325			
010	DEFERRED	03	TO BE	5,000			
010	DEFERRED	04	COMPLETED	0			
	DEFERRED		BY CTR		TO BE COMPLETED		
	DEFERRED				BY CTR		
	DEFERRED		N/A FOR				
	DEFERRED		DEPARTMENT		N/A FOR DEPARTMENT		
	DEFERRED						
	DEFERRED						
	TOTAL			5,000			

DEPARTMENT CONTACTS:

PREPARED BY: C. FISCAL OFFICER DATE: 8/7/90

TELEPHONE: 727-XXXX

APPROVED BY: DEPT. HEAD DATE: 8/8/90

ACCOUNTS RECEIVABLE ANALYSIS  
GAAP REPORTING FORM - FY90

DEPARTMENT/ORG XYZ - STATE DEPARTMENT

1. FUND 010 REVENUE SOURCE 5203 CONDITION # 1  
 Analysis: 1. Department implemented new collection procedures resulting in more timely collection of receivables.  
 2. Ten percent rate increase
2. FUND 010 REVENUE SOURCE 5203 CONDITION # 4  
 Analysis: Disallowance rate based on department's experience.
3. FUND 010 REVENUE SOURCE 4000 CONDITION # 3  
 Analysis: Two months rent for Snack bar - opened May 1. Payment received July 18.
4. FUND \_\_\_\_\_ REVENUE SOURCE \_\_\_\_\_ CONDITION # \_\_\_\_\_  
 Analysis:
5. FUND \_\_\_\_\_ REVENUE SOURCE \_\_\_\_\_ CONDITION # \_\_\_\_\_  
 Analysis:

CONDITIONS:

1. Change between FY89 and FY90 RPT286F revenue of 50% and \$500,000
2. RPT286F FY90 revenue is  $\geq$  \$1,000,000 and there is no receivable
3. Accounts Receivable are  $>$  25% of RPT286F FY90 revenue
4. Uncollectible is  $>$  25% of the accounts receivable
5. Deferred revenue is  $>$  25% of accounts receivable

DEPARTMENT CONTACTS:

PREPARED BY: C. FISCAL OFFICER DATE: 8/7/90 TELEPHONE: 727-XXXX  
 APPROVED BY: DEPT. HEAD DATE: 8/8/90



## COMPENSATED ABSENCES

### Overview

When employees earn the right to compensated absence time and can carry it forward from one fiscal year to the next, a liability is created. At year-end the employer "owes" the employee a certain amount. It can be calculated based on the accumulated amount of unused time earned and the employee's rate of pay.

Under GAAP, the Commonwealth must measure and record its liability for compensated absences. For budgetary reporting this is not an issue, since it uses the "pay-as-you-go" method.

Two basic categories of GAAP compensated absence liabilities are reported. These are vacation accruals, and sick leave buyback. Each is further divided into short-term and long-term liabilities. The short-term portion is expected to be paid within one year, that is, by June 30, 1991. The long-term portion is expected to be paid after that date.

**Vacation Accruals:** These are simply the value of accumulated vacation time at the employee's current rate of pay. The Commonwealth estimates that any vacation days earned but unused at June 30 will be used within one year. Their value is a short-term liability reported as the June 30, 1990 accrual. For some employees groups, the next year's vacation pay is accrued as of June 30. It should be reported separately as the July 1, 1990 accrual. It is generally considered 50% long-term, but this analysis will be performed at the Comptroller's office.

**Sick Leave Buyback:** This liability represents the Commonwealth's estimated obligation to employees who are entitled to convert their accumulated sick leave into cash upon retirement. The maximum liability is 20% of the value of accumulated sick leave.

The Comptroller is investigating automated reporting of sick leave buyback accruals for PMIS departments. At present however, it is not clear whether this report can be ready for FY90 GAAP reporting due to resource constraints and other payroll system priorities.

Therefore, PMIS departments should plan to prepare sick leave buyback accruals following the approach described below. Should this change, notice will be provided immediately via MMARS News.

### Method - Vacation Accrual

Because of the proven reliability of PMIS, vacation accruals will again be prepared by the Comptroller's staff and audited centrally.

For non-PMIS departments, individual personnel and payroll records must be reviewed by department staff in order to accumulate the vacation accruals by fund and appropriation. The accrual is calculated as unused vacation time for each employee paid from that fund and appropriation account, multiplied by the employee's rate of pay. See Exhibit CA-1 for a sample worksheet. Departments will retain the detail records for audit review.

Totals by fund and appropriation will be reported using the Vacation Accrual Summary Schedule as shown on Exhibit CA-2. Only accruals greater than \$5,000 per appropriation must be reported.

### Method - Sick Leave Buyback

All departments will follow the same general method. Only accruals greater than \$5,000 per appropriation must be reported.

Non-PMIS departments will use detailed personnel and payroll records, plus a worksheet format similar to that included as Exhibit CA-3 to document their calculations. PMIS departments will use the PMIS 66 worksheet on which individual data is provided as shown in Exhibit CA-4.

For each appropriation account, departments will identify those employees likely to retire from the Commonwealth. Employees with at least 10 years of service are vested in the retirement system, and, in general, it is assumed that they will retire with sick leave buyback liabilities.

Non-PMIS departments will identify these employees manually, listing each such employee's name, pay rate, and sick leave balance, as shown at Exhibit CA-3. From this, the total value of each eligible individual's sick leave will be calculated and entered in the "Dollar Value Sick Leave" column.

PMIS departments will use PMIS 66 as of May 31 to identify the probable retirees by date of birth and date of entry into state service. For each probable retiree, enter the "Dollar Value Sick Leave" amount into the column "Dollar Value of Employees Estimated to Retire".

Once the total sick leave of probable retirees is determined, it must be divided into short-term and long-term portions. To do this, the department first identifies the employees likely to retire by June 30, 1991, for whom retirement is a short-term prospect. The dollar value for these employees is simply listed in the "Short Term" column ("Value for Anticipated Retirees" on PMIS 66). Values for all other employees are "Long-Term".

Acceptable approaches to identifying the short-term group include:

- . all employees who have submitted retirement papers as of June 30, 1990
- . all employees over age 65 at June 30, 1990
- . a combination of years of service and age; for example, all employees over age 62 with 30 years of service at June 30, 1990.

At the end of the sorting process, the preparer should verify that the "Short-Term" and "Long-Term" columns added together equal the original "Dollar Value Sick Leave". The short term and long term sick leave buyback liabilities are then calculated as 20% of each column.

The buyback amounts, by appropriation will be carried forward to the Sick Leave Buyback Summary Schedule, as shown on Exhibit CA-5.

Certain employees in the Higher Education System and Trial Courts may have different buyback guidelines. If assistance is needed in modifying these instructions to fit these alternate rules, contact the GAAP Helpline at 617-727-5995.

### Frequently Asked Questions

- Q. Should individuals on an 03 payroll be included on these calculations?
- A. No, only those employees on an 01 or 02 payroll that earn leave benefits are to be considered. The 03 payrolls are already excluded from PMIS 66.
- Q. Since the fiscal year ends on June 30, why are PMIS departments using May 31 data for their sick leave buyback calculations?
- A. This is to help departments cope with busy year-end schedules by allowing an early start on this detailed project. Since sick leave accrues at set rates departmental calculations can be rolled forward to June 30, 1990 by the Comptroller's staff.
- Q. A non-PMIS department's employees accrue vacation leave monthly at month-end. Should the department report a July 1, 1990 vacation accrual?
- A. No. Since all vacation is accrued as of month-end, the department will report a 6/30/90 accrual on Vacation Accrual Worksheet (CA-1) and Vacation Accrual Summary Schedule (CA-2). The department should mark the 7/1/90 accrual columns N/A on CA-1 and CA-2.
- Q. How will decentralized multi facility departments report vacation and sick-leave buyback accruals?
- A. Decentralized multi facility departments will accumulate the information from all their facilities and report the department's total accrual on Vacation Accrual Summary Schedule (CA-2) or Sick Leave Buyback Summary Schedule (CA-5) as appropriate. These departments will also submit supporting schedules by facility.



COMPENSATED ABSENCES - VACATION ACCRUAL SUMMARY SCHEDULE

PMIS DEPARTMENT/ORG XYZ - STATE DEPARTMENT

FUND	DESCRIPTION	APPROP #	FY'89 AMOUNT	FY'90 AMT PER DEPT	MFR/AUDIT ADJUSTMENT	ADJUSTED BALANCE	GP #
010	6/30/90 ACCRUAL	1234-5678	TO BE	5,171			
	6/30/90 ACCRUAL		COMPLETED				
	6/30/90 ACCRUAL		BY CTR		TO BE	COMPLETED	
	6/30/90 ACCRUAL				BY	CTR	
	6/30/90 ACCRUAL		N/A FOR				
	6/30/90 ACCRUAL		DEPARTMENTS				
	6/30/90 ACCRUAL				N/A FOR	DEPARTMENTS	
	6/30/90 ACCRUAL						
	6/30/90 ACCRUAL						
	6/30/90 ACCRUAL						
	6/30/90 ACCRUAL						
	6/30/90 ACCRUAL						
	TOTAL			5,171			

010	7/1/90 ACCRUAL	1234-5678	TO BE	7,636			
	7/1/90 ACCRUAL		COMPLETED				
	7/1/90 ACCRUAL		BY CTR		TO BE	COMPLETED	
	7/1/90 ACCRUAL				BY	CTR	
	7/1/90 ACCRUAL		N/A FOR				
	7/1/90 ACCRUAL		DEPARTMENTS				
	7/1/90 ACCRUAL				N/A FOR	DEPARTMENTS	
	7/1/90 ACCRUAL						
	7/1/90 ACCRUAL						
	7/1/90 ACCRUAL						
	7/1/90 ACCRUAL						
	7/1/90 ACCRUAL						
	TOTAL			7,636			

DEPARTMENT CONTACTS:  
 PREPARED BY C. FISCAL OFFICER DATE: 8/3/90 TELEPHONE: 727-XXXX  
 APPROVED BY DEPARTMENT HEAD DATE: 8/3/90



COMMONWEALTH OF MASSACHUSETTS  
ACCUMULATED LEAVE VALUATION  
DETAILED LEVEL 6-30

PERSONNEL-PAYROLL MANAGEMENT  
INFORMATION SYSTEM  
REPORT NO: PH1544  
AGENCY: XYZ STATE DEPARTMENT

SOCIAL SECURITY NUMBER	EMPLOYEE NAME	APPROPRIATE ACTION	BALANCE AVAILABLE VACN LEAVE	DOLLAR VALUE AVAILABLE VACN LEAVE	BALANCE PROJECTED VACN LEAVE	DOLLAR VALUE PROJECTED VACN LEAVE	BALANCE SICK LEAVE	DOLLAR VALUE SICK LEAVE	VALUE OF EMP EST TO RETIRE	VALUE FOR ANTICIPATED RETIREES	LOW TERM LIABILITY OF SICK BAL	DATE OF BIRTH	ENTRY DATE STATE
5000			82,500	1,600.05	75,000	1,520.04	221,250	4,507.73	---	---	---	53-00-13	07-03-29
5020			3,750	70.11	112,500	2,103.42	674,290	0,007.08	---	---	---	59-09-05	03-03-13
5200			242,500	6,050.49	107,500	4,093.21	2,062,548	53,026.44	53,826.6	53,826.6	---	25-03-11	05-00-30
5300			0,750	15.25	150,000	3,110.33	100,790	3,910.66	3,915.5	3,915.5	---	40-07-12	78-10-01
5000			0,000	0.00	112,500	1,962.42	9,378	103.83	---	---	---	01-08-06	04-00-12
6000			0,000	0.00	75,000	1,471.10	95,625	1,075.75	---	---	---	40-05-13	07-07-01
5000			22,500	460.46	75,000	1,351.32	71,250	1,203.78	---	---	---	50-07-03	07-08-10
5000			207,000	6,976.07	150,000	4,236.72	1,043,165	30,020.00	30,027	30,027	---	01-00-31	71-04-04
9200			141,500	3,692.74	150,000	3,910.57	934,040	24,378.74	24,375	24,375	---	07-03-03	71-09-29
5300			0,000	0.00	75,000	1,711.04	191,125	4,360.31	---	---	---	05-10-04	04-03-02
5300			15,000	277.37	75,000	1,507.04	103,125	1,900.20	---	---	---	53-00-16	04-03-02
5300			15,000	316.90	75,000	1,504.90	324,500	6,057.33	---	---	---	10-05-10	05-09-15
5300			294,000	8,746.15	50,000	1,407.44	1,799,035	53,519.13	53,519	53,519	---	45-09-11	69-01-05
5000			0,000	0.00	150,000	1,033.12	11,375	139.01	139	139	---	54-13-04	74-07-20
5000			31,923	336.27	67,500	711.03	23,615	246.65	---	---	---	50-05-16	00-11-26
5300			26,250	641.37	75,000	1,261.06	242,645	4,079.64	---	---	---	07-03-09	05-02-04
1005			7,500	132.60	75,000	1,326.02	156,625	2,770.04	---	---	---	54-05-21	07-03-01
5300			42,750	1,162.76	112,500	2,004.64	244,535	4,031.26	---	---	---	44-09-10	03-04-03
9440			0,000	0.00	75,000	820.70	24,090	272.39	---	---	---	50-05-22	05-03-20
9350			0,000	0.00	112,500	2,710.51	927,660	22,016.44	20,416	20,416	---	52-11-26	00-01-13
5000			292,375	9,159.99	15,625	409.53	1,194,165	37,075.37	37,475	37,475	---	34-12-04	62-05-16
5000			7,500	121.36	75,000	1,213.60	170,625	2,760.93	---	---	---	61-00-11	07-00-20
5000			60,579	1,112.55	150,000	2,071.04	111,625	1,541.20	1,541	1,541	---	59-04-02	00-02-24
5000			30,000	345.90	112,500	1,297.61	75,000	864.94	---	---	---	59-12-20	01-05-10
1005			64,500	1,619.77	75,000	1,650.90	176,625	3,007.07	---	---	---	53-04-12	05-11-01
1002			125,735	1,660.36	112,500	1,134.07	90,625	813.32	---	---	---	07-07-00	00-09-20
6000			0,000	0.00	75,000	1,182.20	60,750	1,003.69	---	---	---	55-04-10	00-03-10
5300			41,750	744.74	75,000	1,337.06	147,625	2,633.35	---	---	---	52-03-04	04-02-10
6000			200,250	6,101.61	12,500	260.07	250,610	5,151.60	5,142	5,142	---	27-01-03	73-05-29

TOTALS  
FUND 100

\* 232,777 59,368 173,409

BUYBACK AT 2070 11,874 34,682

\* TOTAL > \$25,000. THEREFORE FURTHER REPORTING REQUIRED.

COMPENSATED ABSENCES - SICK LEAVE BUYBACK SUMMARY SCHEDULE

DEPARTMENT/ORG XYZ - STATE DEPARTMENT

FUND	DESCRIPTION	APPROP #	FY'89 AMOUNT	FY'90 AMT PER DEPT	MFR/AUDIT ADJUSTMENT	ADJUSTED BALANCE	GP #
010	CURRENT	1234-5678	TO BE	6,055			
	CURRENT	FUND TOTAL	COMPLETED	6,055			
	CURRENT		BY CTR		TO BE	COMPLETED	
	CURRENT				BY CTR		
	CURRENT		N/A FOR				
100	CURRENT	8765-4321	DEPARTMENTS	11,874			
	CURRENT	FUND TOTAL		11,874	N/A FOR	DEPARTMENTS	
	CURRENT						
	CURRENT						
	CURRENT						
	CURRENT						

TOTAL 17,929

010	LONG-TERM	1234-5678	TO BE	7,140			
	LONG-TERM	FUND TOTAL	COMPLETED	7,140			
	LONG-TERM		BY CTR		TO BE	COMPLETED	
	LONG-TERM				BY CTR		
	LONG-TERM		N/A FOR				
100	LONG-TERM	8765-4321	DEPARTMENTS	34,682			
	LONG-TERM	FUND TOTAL		34,682	N/A FOR	DEPARTMENTS	
	LONG-TERM						
	LONG-TERM						
	LONG-TERM						

TOTAL 41,822

DEPARTMENT CONTACTS:

PREPARED BY: C, FISCAL OFFICER

DATE: 8/3/90

TELEPHONE: 727-XXXX

APPROVED BY: DEPARTMENT HEAD

DATE: 8/3/90



## ACCOUNTS PAYABLE

### Overview

The term "Accounts Payable" is defined as the amount due to be paid for goods and/or services received on or before June 30, 1990. For most departments it is equivalent to the value of BFY90 encumbrances that will be paid during the accounts payable period. As in FY89, encumbrance management will be relied upon for basic accounts payable reporting, and most departments will submit no special GAAP forms. For additional information about this approach and its related procedures, departments should refer to the FY90 Closing Instructions as follows:

- . Section 1: Special Items of Consideration
- . Section 4: Encumbrance Management

Encumbrance cutoff will be extensively tested by the auditors. Departments will need to review their encumbrances, and document the date of receipt, amounts payable, etc. Departments will be responsible for maintaining auditable supporting documentation such as encumbering documents, receiving documents and vendor invoices.

Departments with special accounts payable or expense accrual issues will be contacted separately for specific guidelines not within the scope of these instructions.

### Method

Staff from the Office of the State Auditor will again visit many departments in late June and early July to review cash, encumbrance and advance cutoffs. For encumbrances and accounts payable, the State Auditor's staff will work from MMARS Report RPT620A, Open Encumbrances at June 30, 1990.

They will look at the supporting documentation for encumbrances. Their objective is to ensure that these encumbrances represent the cost of goods and services received on or before June 30, 1990. Goods or services on order, but not received by June 30, 1990, must be de-encumbered for FY90 and re-encumbered in FY91.

Departments should use their copies of RPT620A at June 30, 1990 as control documents. For example, receiving dates can be written directly on the report for easy reference. If the actual bill is more or less than the June 30, 1990 amount encumbered, that can be documented on the RPT620A, too.

For departments who no longer receive RPT620A, the Comptroller's office will send the June 30, 1990 report directly to GAAP liaisons. If a department wants extra copies at this critical cutoff date, it should request a one-time change in its PHOM table. Contact the GAAP Helpline at 617-727-5995 for assistance.

At a later date, probably in late August or early September, the department's encumbrances may again be reviewed by staff from the Office of the State Auditor or by the Commonwealth's independent auditors. MMARS RPT620A will again be the primary department review document. Additional audit trail reports will be used by the Comptroller, but they should require no added work from the departments.

Exhibit AP-1 is included as a reminder about accounts payable principles to be applied to year-end encumbrances. Exhibit AP-2 is a sample page from RPT620A.

Frequently Asked Questions

- Q. A department issued a purchase order on May 31, 1990 for 15 cartons of paper, and the encumbrance appears on the Open Encumbrances Report (RPT620A) for June 30. However, the paper was not received at the department until July 7. Is this a GAAP account payable?
- A. No. It is not considered a FY90 account payable for GAAP, and it is not a valid BFY90 budgetary encumbrance either. This is because it was received after the end of the fiscal year. The key for both FY90 encumbrances and accounts payable is the date the department receives the goods or services. The encumbrance should be modified to 0 in FY90 and re-encumbered in FY91.
- Q. What if goods or services have been received by June 30, 1990, but the bill has not?
- A. This is an obligation for FY90 and it should remain encumbered; it will also be included in accounts payable for GAAP. Estimates can be used if invoices have not been received, but they must be documented. All FY90 encumbrances must be paid by August 31, 1990.
- Q. What should a department do if the invoice amount is greater than the encumbrance for a specific item or account?
- A. The department may need to request payment via a deficiency appropriation. Contact Debbie Reynolds at the Office of the Comptroller, (617) 727-5000 ext. 258, for assistance.

ACCOUNTS PAYABLE AND ENCUMBRANCE EXAMPLES

<u>Outstanding (Encumbered) Amt. Per RPT620A</u>	<u>Dates of Receipt</u>	<u>Claim or Invoice Date</u>	<u>Claim or Invoice Amount</u>	<u>Date of Payment</u>	<u>Encumbrance &amp; Payable 6/30/90</u>	<u>Final Encumbrance Payable 6/30/90</u>
15,580	5/25/90	6/01/90	15,000	7/03/90	Yes	15,000
31,500	5/31/90	6/05/90	20,000	7/03/90	Yes	20,000
	6/1-30/90	7/05/90	11,500	8/07/90	Yes	11,500
90,000	6/29/90	6/29/90	94,500	7/27/90	Yes*	94,500
10,350	7/06/90	6/29/90	10,350	7/24/90	No	0
<u>7,850</u>	7/03/90	7/03/90	<u>7,050</u>	8/03/90	No	<u>0</u>
155,280 =====			158,400 =====			141,000 =====

is a candidate for deficiency review.

RUN DATE: 06/30/90  
RUN TIME: 02:40  
XYZ 1000 - 00007

COMMONWEALTH OF MASSACHUSETTS  
HMARS - MASSACHUSETTS MANAGEMENT ACCOUNTING AND REPORTING SYSTEM  
OPEN ENCUMBRANCES,  
AS OF 06/30/90

REPORT PAGE: 1  
REPORT ID: RPT620A  
BUDGET FISCAL YEAR 1990

DEPARTMENT: XYZ STATE DEPARTMENT  
ORGANIZATION: 1000 ADMINISTRATION

TR	DEP	ORGN	NUMBER	LN	OBJ	VENDOR	QTY	UNITS	DESCRIPTION	ORDERED AMOUNT	EXPENDED AMOUNT	OUTSTANDING AMOUNT
-----TRANSACTION-----												
APPROPRIATION NNNNNNNN STATE DEPARTMENT - SUBSIDIARY 03												
SC	XYZ	1000	9003406	01	130	AMER MANAGEMENT SYSTEMS			TECHNICAL CO	26,786.20	26,786.20	0.00
TOTAL FOR SUBSIDIARY 03:										26,786.20	26,786.20	0.00

APPROPRIATION NNNNNNNN STATE DEPARTMENT - SUBSIDIARY 12												
SC	XYZ	1000	9007300	01	601	CCN INC			COMPL OF REC	11,615.02	11,615.02	0.00
SC	XYZ	1000	9288001	01	601	B B OFFICE MACHINE CO INC			MAINTENANCE CONTRACTS	1,950.00	1,950.00	0.00
TOTAL FOR SUBSIDIARY 12:										13,565.02	13,565.02	0.00

APPROPRIATION NNNNNNNN STATE DEPARTMENT - SUBSIDIARY 14												
PD	XYZ	1000	D009720	01	686	B B OFFICE MACHINE CO INC			3 EA COMPUTER PRINTER SUPPLIES	78.00	78.00	0.00
PG	XYZ	1000	G509468	01	686	COMMONWEALTH PRINTING AND			50 M ENVELOPES NO. 10: 4-1/8	620.00	620.00	0.00
PG	XYZ	1000	S108498	01	686	CHARRETTE CORP			1 ATTL OFFICE SUPPLIES, GENERAL	811.52	811.52	0.00
PG	XYZ	1000	S117002	01	686	CHARRETTE CORP			1 ATTL OFFICE SUPPLIES, GENERAL	642.53	642.53	0.00
PG	XYZ	1000	S117004	01	686	CHARRETTE CORP			1 ATTL OFFICE SUPPLIES, GENERAL	376.93	376.93	0.00
PG	XYZ	1000	S117005	01	686	CHARRETTE CORP			1 ATTL OFFICE SUPPLIES, GENERAL	514.42	514.42	0.00
PG	XYZ	1000	S117054	01	686	CHARRETTE CORP			1 ATTL OFFICE SUPPLIES, GENERAL	586.20	586.20	0.00
PG	XYZ	1000	S131401	01	686	CHARRETTE CORP			1 ATTL OFFICE SUPPLIES, GENERAL	478.30	478.30	0.00
PG	XYZ	1000	S131403	01	686	CHARRETTE CORP			1 ATTL OFFICE SUPPLIES, GENERAL	888.15	888.15	0.00
PG	XYZ	1000	S131404	01	686	CHARRETTE CORP			1 ATTL OFFICE SUPPLIES, GENERAL	460.99	460.99	0.00
PO	XYZ	1000	9201ADV	01		OPEN ORDER VENDOR			FY89 ADVANCE - SUB 14	4,000.00	3,568.30	431.70
TOTAL FOR SUBSIDIARY 14:										9,457.04	7,678.18	1,757.00

-----TOTAL FOR APPROPRIATION NNNNNNNN:-----												
TOTAL FOR APPROPRIATION 1000:										49,808.26	48,029.40	1,757.00
TOTAL FOR ORGANIZATION 1000:										49,808.26	48,029.40	1,757.00

## FIXED ASSETS

### Overview

Fixed assets (or capital assets) are purchased items of physical property which are expected to be used in the ongoing operations of the department for a period greater than one year. This period is generally called the asset's useful life.

Fixed assets also have a substantial initial cost. Usually this is their purchase price or construction cost. This becomes their "historical cost". If a fixed asset is contributed, its estimated fair market value at the date of the gift is used as its historical cost.

Historical cost is very important for financial reporting. Generally accepted accounting principles require that all basic fixed asset accounting be done at historical cost. When an asset is acquired, it is recorded at historical cost. When the asset is retired from service through sale, disposal, loss or any other means, it is taken out of the accounting system again at its historical cost.

As noted in the FY90 Closing Instructions, the Office of the Comptroller has begun the implementation of an automated fixed asset subsystem that will provide for this accounting with MMARS. This subsystem will also assist departments in fulfilling their property management responsibilities, because it will carry other important data such as acquisition date, location and assessed value.

The critical focus for FY90 is to develop comprehensive auditable beginning balances as of June 30, 1990. These balances are the base of fixed assets already owned and being managed by the Commonwealth.

Although the system itself will become operational for current activity during FY91, its output will only be as good as the beginning balances departments develop and report now. This focus also reinforces the sound management practice of an annual year end physical property inventory supported by the Comptroller.

To make this work, departments need to identify their fixed assets at historical cost - and/or identify enough alternative information to estimate historical cost. For many fixed assets, the acquisition date and current assessed value can be used to make this estimate. Detailed supporting records at the departments and from other sources will be audited and will provide the basis for input to the new system.

The GAAP reporting for FY90 is intended to function as a kickoff for the fixed asset system implementation. Departments will report summary information only in the major categories for which the Comptroller expects to require the use of MMARS fixed asset.

- . land
- . buildings
- . equipment with historical cost greater than \$15,000.

For property management purposes, the system itself will provide for more detailed classification of asset types. Departments will also have the option to record equipment below the \$15,000 historical cost threshold, in order to manage these less costly items within one integrated database.

### Method

A separate Fixed Asset Supplement is devoted to GAAP data collection as part of the overall fixed asset system implementation effort.

## LEASE DISCLOSURE - STATE AS LESSEE

### Overview

Under GAAP, the Commonwealth must disclose its future lease obligations liability for space and equipment leased from third parties. This disclosure must cover each of the next 5 fiscal years, with a total for the fiscal years thereafter. In other words, for leases in effect at June 30, 1990, it must disclose its year by year liability for FY91, 92, 93, 94 and 95, plus a lump sum liability for FY96 and thereafter.

The LO transaction was modified in FY90 to provide multi/cross fiscal year obligation fields that could roll into an approved lease for FY91 and subsequent fiscal years. This modification also supports automated GAAP reporting and we expect that MMARS RPT831A (Projected Lease Payments for GAAP) can be modified to display the appropriate out year lease obligations.

In anticipation of this change, departments should carefully review each lease for proper coding of lease type and for completeness of the out year obligation fields. This is discussed more fully in the FY91 Opening Instructions - Section 5: Encumbrance Management.

Under GAAP there are two types of leases capital and operating leases. A capital lease is one in which the financial risks and benefits of ownership are assumed by the lessee. In most cases, a capital lease resembles an installment purchase rather than a rental. All tax-exempt lease-purchase arrangements (TELP) are capital leases.

Correct lease type codes are essential to proper disclosure. Departments are reminded of the following hierarchy of MMARS codes.

#### Space Leases:

- A = Tenancy at will agreement
- B = Short term agreement (less than or equal to one year)
- C = Long-term agreement (greater than one year)
- D = Garaging of state vehicles

#### Equipment Leases:

##### Operating:

- H = EDP equipment
- I = Telecommunications equipment
- J = Other equipment
- K = Passenger vehicles
- L = Non-passenger vehicles

##### Capitalized:

- R = EDP equipment
- S = Telecommunications equipment
- T = Other equipment

In general, all lease purchases or TELP financing arrangements are classified as capitalized leases. In more technical terms, a lease that meets one of the following criteria, at its inception, should be coded as a capital lease:

- The lease transfers ownership of the leased asset to the Commonwealth by the end of the lease term. For example, the lessee department enters into a 5-year lease and owns it at the end.

- The lease terms and conditions contain a bargain purchase option which allows the Commonwealth to buy the leased asset for substantially less than the estimated value of the leased item.

- The term of the lease is 75% or more of the estimated economic life of the leased asset. Estimated economic life is the estimated useful life of the asset for the purpose for which it was intended, regardless of the term of the lease. For example, if a copier with an estimated economic life of 10 years were leased for 8 years it would meet this criterion.

Each lease's lease type code should also correspond to its object code. For example, a capitalized lease of EDP equipment (lease type code R) should have the object code L01.

The disclosure requirement also applies to installment purchase contracts, in which the Commonwealth acquires title and makes periodic payments as specified in the contract. These should be compiled separately.

Departments engaged in significant subleasing activities will need to report this additional information so that rental income will be reported to reduce the overall lease obligation.

#### Method

Departments will receive MMARS Report RPT831A, Projected Lease Payments for GAAP, as of the close of period 12 in GAAP Distribution #2. We expect that it will display lease obligation data as it exists in MMARS. A sample page as we expect the report to be revised is included as Exhibit LO-1.

This new report would allow departmental review and verification of the lease type, lease term and outyear obligations for each of the next 5 fiscal years (FY91 through FY95) in the appropriately labelled column. When lease terms extend beyond 5 fiscal years, the "FY' 1996 and beyond" column will display the total liability for the period July 1, 1995 to termination.

Review of the object code will provide a double check on lease type. Object codes L01-L10 should generally be coded as equipment capital leases; object codes L21-L31 will be equipment operating leases; object code G01 would always designate a space lease. Departments should verify that the object code corresponds with the lease type, and enter any changes on RPT831A for return by August 10, 1990, and prepare modifying LO transactions to update MMARS.

Sublease information should be inserted on the RPT831A immediately below the printed lease information. This is illustrated on Exhibit LO-1. The sublessee's name is inserted under vendor name, and sublease revenue for each fiscal year is entered in the columns. These revenues will be displayed in brackets to show that they reduce the liability.

Totals on RPT831A must be updated by the department to reflect any changes, including subleases. Installment purchase contracts should be added at the end of RPT831A as separate list.

If the revised report is not available, we will issue RPT831A in the same format as FY89, and departments will manually accumulate the lease obligation information. The lease payment obligation for each of the next 5 fiscal years (FY91 through FY95) will be entered in the appropriately labelled columns on the RPT831A. When lease terms extend beyond 5 fiscal years, the department will record as a total liability for the period July 1, 1995 to the lease termination date in the last column. Sublease information will be handled as described above. Departments will need to take manual totals, by lease type, for each column.

#### Frequently Asked Questions

Q. Should a liability for office space a department leases to or from another Commonwealth department or facility be included?

A. No. Interdepartmental subleasing activity via MMARS should be noted, however, to ensure that both sides of the activity are excluded.

Q. What should a department do if a lease is missing from RPT831A?

A. If a lease that was in effect on or before June 30, 1990 is not included on RPT831A, it should be added at the end of the appropriate lease type section. Only leases that are active at year end should be included. If the term starts in FY91, the lease should not be added.

Q. Should electricity, security, etc. be included as part of the future minimum lease payments?

A. Yes, if these items are stated in the lease and they are included in the actual lease payment made from object code G01. If these items are included in the lease but paid separately from other object codes, the answer is No.

Q. Why doesn't the revised RPT831A display the out year obligations?

A. If outyear obligations are missing it is likely that the department did not complete and/or bring to Pend 5 status a modifying LO transaction for the lease's out year obligations by May 11, 1990. The department will need to manually update the RPT831A outyear obligations columns for this lease. It should also update MMARS.

Q. Are modular units considered equipment or space?

A. Modular units are considered facility equipment (object code L23) per the FY91 Expenditure Classification Handbook. They are equipment for GAAP, too.



PROJECTED LEASE PAYMENTS FOR GAAP  
 AS OF 06/30/90

DEPARTMENT: XYZ STATE DEPARTMENT

LEASE ORDER NUMBER	VENDOR NAME	DATES OF SERVICE FROM TO	OBJECT CODE	FUTURE MINIMUM LEASE PAYMENTS				
				FY 1991	FY 1992	FY 1993	FY 1994	FY 1995 AND BEYOND

04299999001	COMMONWEALTH PL	04/17/89 09/15/94	G-01	\$12,000	\$12,000	\$12,000	\$12,000	\$2,500
-------------	-----------------	-------------------	------	----------	----------	----------	----------	---------

04299999003	BERTRAM & RONAL	02/25/86 02/24/92	G-01	\$36,000	\$23,400	\$	\$	\$
	SUBLEASE	J. SMITH & CO. 7/1/89 2/24/92		(24,000)	(17,000)			

93009019005	PARKER REALTY C	06/30/88 03/31/93	G-01	\$24,000	\$24,000	\$18,000	\$	\$
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TOTALS: \$48,000 \$45,800 \$36,000 \$12,000 \$2,500

LEASE TYPE J OPERATING LEASE-OTHER EQUIP

93009137001	ALCO CAPITAL RE	12/12/88 12/11/91	L-26	\$6,000	\$	\$	\$	\$
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TOTALS: \$6,000 \$

LEASE TYPE S CAPITAL LEASE-TELECOMM EQUIP

04289217050	CHASE MANHATTAN	07/01/89 07/01/96	L-C'S	\$60,000	\$60,000	\$60,000	\$60,000	\$60,000
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TOTALS: \$60,000 \$60,000 \$60,000 \$60,000 \$60,000

**ASSETS HELD IN TRUST**  
(Excluding Higher Education Trust Funds)

Overview

"Assets Held in Trust" are the cash and other assets which the Commonwealth holds in a trustee capacity for third parties, such as students, patients, or inmates. As custodian of these assets, the Commonwealth is responsible for their safekeeping. It reports both the assets and the corresponding liabilities to the third parties.

For GAAP, departments will report any assets held in trust kept at the department or facility, or at a local bank, and **not accounted for through MMARS**. Examples include patient canteen and gift funds, inmate canteen funds, patient property and bank accounts, and inmate property funds. DMH, DMR, DOC, DPH and DSS facilities are most likely to have reportable assets held in trust.

Departments do not need to report funds already deposited with the State Treasurer's Office and recorded in MMARS via a CR transaction. These funds, such as unclaimed patient or inmate funds, local option tax collections (DOR) and court escrow accounts (AGO) are already reported in MMARS and will be automatically picked up by the Comptroller.

Any questions about whether or not assets held in trust at a department or facility are already accounted for in MMARS should be referred to the GAAP Helpline at 617-727-5995.

Special reporting requirements for the non-appropriated Higher Education Trust Funds are addressed in a supplemental handout. Institutions of Higher Education who have not received this information should contact the GAAP Helpline at 617-727-5995 to request a copy.

Method

Department detail documentation for assets held in trust at June 30, 1990 will ordinarily be organized by asset type. For example, all patient bank accounts will be organized together, with detail support showing each individual patient's name and bank balance.

For FY90 GAAP reporting, only the total for each of these general asset types will be included. See Exhibit AT-1 for an illustration of the report form.

The department's detail records, checking accounts, bank books, etc., should be available for audit examination. The June 30, 1990 balance must be clearly identified on the detail records and must be the same amount reported for GAAP.

Frequently Asked Questions

- Q. Should the department include funds received in trust but already on deposit with the Treasurer's Office?
- A. No, these funds are included on MMARS. The department should only include cash and other assets held by the Commonwealth in trust for a third party but not in MMARS.

- Q. Should a department list jewelry or other property as assets held in trust?
- A. Yes. However, departments should exercise caution about assigning a dollar value to the jewelry or other property unless it has been appraised. As trustee, it is liable for the property if it is lost.
- Q. How will decentralized multi facility departments report assets held in trust?
- A. Decentralized departments will report the department's total assets held in trust on AT-1. These departments will also submit a supporting schedule of assets held in trust by facility.

ASSETS HELD IN TRUST

GAAP REPORTING FORM - FY'90

DEPARTMENT/ORG: XYZ STATE DEPARTMENT

<u>Asset Type (e.g. Bank Accounts, Canteen Funds)</u>	<u>Dollar Value</u>
	<u>June 30, 1990</u>
1) <u>CLIENT ACCOUNTS</u>	<u>325,000</u>
2) <u>CANTEEN FUND</u>	<u>210,000</u>
3) <u>GIFT SHOP FUND</u>	<u>25,000</u>
4) <u>CLIENT SAVINGS BONDS</u>	<u>80,000</u>
5) _____	_____
6) _____	_____
7) _____	_____
8) _____	_____
9) _____	_____
10) _____	_____
11) _____	_____
12) _____	_____

Total Assets Held in Trust 640,000

Preparer's Name (please print): C. FISCAL OFFICER

Preparer's Signature: C. Fiscal Officer

Date Prepared: 7/26/90

Telephone: 727 - XXXX

## MATERIALS AND SUPPLIES INVENTORY

### Overview

Materials and supplies are goods like office supplies, medical supplies, or repair materials that are generally consumed within the next fiscal year. On a budgetary basis, they were expended when acquired. For GAAP, however, any inventories on hand at June 30, 1990, and intended for use in operations or for resale, are considered assets which will be used in future periods. These inventories are ordinarily maintained in a central storage area where they can be physically safeguarded, and where they can also be counted fairly quickly.

### Method

If the department, individual facility or location estimates that its inventory of material and supplies has a value greater than \$50,000 it should conduct a physical inventory. It is expected that all operating facilities (hospitals, treatment sites, correctional facilities) will address this issue.

To reduce year-end workload, the physical inventory may be conducted at any time between June 20 and the close of business on June 30, 1990. The date and time must be noted, for potential audit follow-up.

Departments, and facilities who report physical inventories should also note the valuation method used. The recommended method is FIFO. If further assistance is needed in valuation, contact the GAAP Helpline at 617-727-5995.

Physical inventories should be summarized into general classifications as appropriate. Detail must be maintained by the department. Only total cost information is required, as shown on Exhibit SI-1.

### Frequently Asked Questions

- Q. What is the difference between materials and supplies inventory and fixed assets (or physical property)?
- A. Materials and supplies have low individual unit costs and are items like pencils or medicine that are generally consumed during a fiscal year. Fixed assets have life spans of one year or more and significant acquisition costs. Examples are cars, computers, etc.
- Q. If a department or facility estimates its inventory value at more than \$50,000 what is the format used to take a physical inventory?
- A. Physical inventory sheets are usually organized as follows:

<u>Description</u>	<u>Quantity</u>	<u>Unit Cost</u>	<u>Total Cost</u>
Item A	10,000	.38	3,800
Item B	504	1.00	<u>504</u>
			<u>4,304</u>

This level of detail will be maintained by the department. Only summary totals will be sent to the Comptroller.

- Q. How will decentralized multi facility departments report material and supplies inventory?
- A. Decentralized multi facility departments will report the department's total material and supplies inventory on SI-1. These departments will also submit a supporting schedule of material and supplies inventory by facility.

MATERIALS AND SUPPLIES INVENTORY

GAAP REPORTING FORM - FY'90

DEPARTMENT/ORG: XYZ STATE DEPARTMENT

June 30, 1990

<u>Inventory Classification</u>	<u>Inventory Cost</u>
1) <u>Office Supplies</u>	<u>10,000</u>
2) <u>Medical and Surgical Supplies</u>	<u>100,000</u>
3) <u>Housekeeping Supplies</u>	<u>40,000</u>
4) <u>Food</u>	<u>50,000</u>
5) <u>Heating Fuel</u>	<u>30,000</u>
6) _____	_____
7) _____	_____
8) _____	_____
9) _____	_____
10) _____	_____
11) _____	_____
12) _____	_____
<b>Total Material and Supplies Inventory</b>	<u><u>230,000</u></u>

Inventory Date: JUNE 30, 1990

Valuation Method: FIFO

Preparer's Name (please print): C. FISCAL OFFICER

Preparer's Signature: C. Fiscal Officer

Date: 7/24/90 Telephone: 727-XXXX





